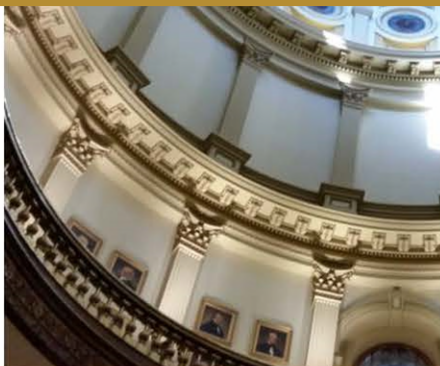


# Final Report to the General Assembly

*Sales and Use Tax Simplification Task Force*  
*November 2024 | Research Publication 817*





## Sales and Use Tax Simplification Task Force

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**This report is also available online at:**

<https://leg.colorado.gov/content/itaxtask2024asummaryandfinalreports>

## Committee Charge

The Sales and Use Tax Simplification Task Force (task force) was originally created in 2017 pursuant to [House Bill 17-1216](#). In its original form, the task force was scheduled to be repealed in 2020; however, [House Bill 20-1022](#) extended the work of the task force for an additional five years through July 1, 2026.

The task force is charged with studying the necessary components of a simplified sales and use tax system and a simplified local lodging tax system for both the state and local governments, including whether there are feasible solutions for:

- making audits of retailers more uniform for all state and local taxing jurisdictions in the state;
- the utilization of a single sales and use tax return for state and local taxing jurisdictions as a part of the Sales and Use Tax Simplification (SUTS) system, created pursuant to [Senate Bill 19-006](#);
- streamlining the requirements for state and local sales tax licenses, use tax licenses, and business licenses used for purposes of collecting sales and use taxes;
- making uniform, and possibly increasing, the filing threshold amount for monthly sales tax filings between the state and local governments, including home rule municipalities;
- simplifying use taxes levied by the state and local governments, including home rule municipalities;
- streamlining, and possibly making uniform, the state and local sales tax exemptions for medical devices, including reviewing best practices among states in this area;
- simplifying the process by which state and local sales and use taxes are collected for the purchase of a motor vehicle;
- simplifying the issuance of local building permits and the levying of use tax on building materials and on mobile and small mobile construction equipment;
- simplifying the process to claim and administer the various state sales and use tax exemptions; and
- simplifying the sales tax collection and remittance requirements for nonprofit organizations.
- simplifying local lodging taxes levied by local governments, including home rule municipalities; and
- considering whether there are feasible solutions for adding the acceptance of returns and processing payment of any local lodging tax to the electronic sales and use tax simplification system or, alternatively, creating an electronic local lodging tax system that is a one-stop portal designed to facilitate the collection and remittance of local lodging taxes in the same manner in which the electronic sales and use tax simplification system facilitates the collection and remittance of local sales and use taxes.

The task force is also required to:

- seek regular updates from the Governor's Office of Information Technology and the Colorado Department of Revenue (DOR) regarding the SUTS system, including the geographic information system (GIS) database;

- monitor and encourage participation by businesses and home rule municipalities in the SUTS system;
- review the way in which special districts and specially assessed sales taxes add to the complexity of the state’s sales and use tax structure, including, at minimum, the Regional Transportation District, the Scientific and Cultural Facilities District, any local improvement districts, any regional transportation authority, any multi-jurisdictional housing authority, and any health services district, and any mass transportation system tax, public safety improvement tax, metropolitan district tax, local marketing district tax, and county lodging district tax;
- review and compare the state’s sales and use tax definitions with the standard sales tax definitions developed and adopted by local taxing jurisdictions pursuant to [Senate Joint Resolution 14-038](#), to determine if any simplification might be achieved between the two sets of definitions;
- examine the effects of the changes to the vendor fee implemented pursuant to [House Bill 19-1245](#);
- seek regular updates from the Legislative Oversight Committee Concerning Tax Policy created pursuant to [House Bill 21-1077](#) regarding any decisions that the committee may make related to any sales or use tax expenditures evaluated by the Office of the State Auditor pursuant to Section 39-21-305, C.R.S.;
- explore options for eliminating a DOR requirement for taxpayers to use branch ID reporting;
- determine whether the state should adopt a sales tax exemption for an isolated or occasional sale of a business in an asset sale;
- regularly review the business impact of the destination sourcing rules set forth in Section 39-26-104 (3), C.R.S., including the thresholds that trigger the requirement for destination sourcing;
- analyze or review any other relevant topic related to the simplification of sales and use tax administration in the state; and
- receive testimony at each meeting during the 2024 interim from industry stakeholders regarding the status of conversations and the feasibility for the electronic collection and remittance of local lodging taxes

The enacting legislation also requires the task force to submit a report to Legislative Council by November 1 of each year, which may or may not include recommendations for legislation.

There are 15 members on the task force:

- Representative Cathy Kipp, appointed by the Speaker of the House of Representatives;
- Senator Kevin Van Winkle, appointed by the Minority Leader of the Senate;
- Representative Rick Taggart, appointed by the Minority Leader of the House of Representatives;
- Senator Jeff Bridges, appointed by the President of the Senate;
- Josh Pens, Director of Tax Policy Analysis, representing the Colorado Department of Revenue;
- Kevin Bommer, Executive Director, representing Colorado Municipal League (CML);
- Tracy Kraft-Tharp, Jefferson County Commissioner, representing Colorado Counties, Inc.;

- Jim Welte, Operations Manager, Summit Brick Company, appointed by the Governor as a member of a statewide association of small businesses that is addressing the simplification of sales and use tax collection;
- Rachel Quintana, Partner, Ernest & Young, LLP, appointed by the Governor as a member of the statewide chamber of commerce;
- Michelle Bush, Partner, Silverstein & Pomerantz LLP, appointed by the Governor as a state and local sales tax law practitioner;
- Judith Vorndran, Partner, State and Local Tax, TaxOps, appointed by the Governor as someone with state and local sales and use tax accounting experience;
- Leslie Edwards, Finance Director, Town of Frisco, appointed by the Colorado Municipal League, representing the small population category;
- Jeanette Roybal, Tax and Licensing Division Manager, City of Northglenn, appointed by the Colorado Municipal League, representing the medium population category;
- Bryan Archer, Director of Finance, City of Arvada, appointed by the Colorado Municipal League, representing the large population category; and
- Don Korte, Director of Tax Compliance, City and County of Denver, appointed by the Colorado Municipal League, representing the largest population category.

## 2024 Committee Activities

The task force held four meetings during the 2024 interim. Briefings and presentations were made by:

- DOR;
- CML;
- The Denver Chamber of Commerce;
- The National Federation of Independent Businesses;
- Colorado tax paying businesses; and
- representatives from the cities of Arvada, Golden, Lakewood, and Boulder.

Task Force received presentations and testimony on various topics, including:

- implementation updates on recent relevant legislation;
- potential simplifications to lodging tax remittance;
- updates on the Wayfair v. Lakewood court case;
- sales tax filing audit selection process by state and local authorities;
- user interface and marketing updates from DOR;
- Shopify practices for sales tax remittance;
- local business user experience with SUTS; and
- the potential future of the task force.



## Recent Legislation Implementation Updates

The task force received implementation updates from the Office of Legislative Legal Services, DOR, and CML regarding legislation passed during the 2023 and 2024 legislative sessions, as well as other approved bills with impacts to sales and use tax.

### **Senate Joint Resolution 23-004: Uniform Sales and Use Tax on Construction Material.**

Recommended by the task force during the 2022 interim, the joint resolution requests updates from CML related to a uniform administration of sales and use tax on construction materials, standardized information on building permits, and a quicker issuance of certain documentation. It also urged self-collecting localities to cooperate on those topics.

CML updated the task force on its progress and the creation of internal groups to collaborate on the process. Based on recommendations from small working groups, CML has drafted a standardized building permit. CML has also drafted a compliance guide to assist businesses in conforming with local use tax laws across jurisdictions. The draft has been distributed to a larger number of stakeholders for feedback. CML expects the drafts for both the standardized building permit and compliance guide to be completed and sent out by the end of 2024.

**House Bill 23-1017: Electronic Sales and Use Tax Simplification System.** Recommended by the task force during the 2022 interim, the bill adds requirements for the implementation of SUTS, designed to facilitate and simplify the collection and remittance of sales and use tax.

DOR discussed its updates to SUTS, including live demos for bulk address lookup, new business registration, and tax filing enhancements. DOR additionally reported on its research regarding user experience and outlined its next steps for system enhancements. Finally, DOR highlighted its SUTS marketing campaign.

**House Bill 24-1041 Streamline Filing Sales and Use Tax Returns.** Recommended by the task force during the 2023 interim, the bill increases the threshold amount of monthly tax collected below which DOR may permit a taxpayer to make returns and pay taxes at quarterly intervals.

CML reported to the task force that it has created a workgroup and will maintain conversations with stakeholders to ensure compliance with the bill. DOR did not yet have updates regarding the bill.

**Additional legislation.** The task force heard summaries and updates of other bills passed in 2024 that impact sales and use taxes, including:

- [House Bill 24-1036: Adjusting Certain Tax Expenditures;](#)
- [House Bill 24-1050: Simplify Processes Regarding Certain Local Government Taxes;](#)
- [Senate Bill 24-023: Hold Harmless for Error in GIS Database Data;](#)
- [Senate Bill 24-024: Local Lodging Tax Reporting on Sales Return;](#)
- [Senate Bill 24-025 Update Local Government Sales and Use Tax Collection;](#)
- [Senate Bill 24-194: Special District Emergency Services Funding;](#) and
- [Senate Bill 24-228: TABOR Refund Mechanisms.](#)

## Audit Selection Process

During the 2024 interim, the task force heard from DOR, local taxing jurisdictions, a contact third-party auditor, and a representative from the National Federation of Independent Business regarding audit selection processes.

Colorado businesses expressed concerns that information being shared by third-party auditing contractors hired by local taxing jurisdictions result in increased workloads after audited by multiple home rule municipalities. Panelists referenced coordinated audit ordinances, many adopted in the 1980s, which allow municipalities to coordinate audits with other jurisdictions, including at the request of the taxpayer. In the case where a business is audited by multiple local taxing jurisdictions, one uniform records request may be submitted so that the business is providing sales tax remittance records only once rather than having to work separately with each jurisdiction involved in an audit.

Coordinated audits are often conducted through third-party auditors contracted by local taxing jurisdictions. Several home rule municipalities contract with third-party auditors to identify and audit potential businesses that may have erroneously remitted sales and use tax. For example, from 2020 through 2023, the city of Golden averaged approximately 10 audits per year on businesses recommended by third-party auditors. A representative from Revenue Recovery Group (RRG) — a third-party auditor contracted by multiple Colorado home rule municipalities — explained during public testimony at a meeting of the task force that while confidentiality requirements on home rule municipalities disallow them from sharing certain financial information on taxpayers once an audit has begun, a third-party auditor may share with all cities a list of businesses that may be candidates for audits. The representative from RRG indicated that these lists are generated from publically available information.

Task force members raised concerns that in reaching out to municipalities in order to coordinate audits, third-party vendors may inspire municipalities to conduct audits on businesses that may otherwise would not be audited, resulting in increased burden on businesses being audited by multiple home rule municipalities. Upon receiving questions from task force members about why RRG would not sign non-disclosure agreements, Revenue Recovery Group's representative maintained that their blanket confidentiality policy is sufficient and that entering into separate non-disclosure agreements goes against best conflict-of-interest practices.

**Committee recommendations.** As a result of its discussions, the task force recommends Bill A, which establishes confidentiality standards for third-party auditors and creates a new misdemeanor for those who violate those confidentiality requirements.

## Lodging Tax Discussion

[House Bill 24-1050](#) expanded the scope of the task force include discussion on lodging taxes. Lodging taxes may be imposed by counties, local marketing districts, and home rule municipalities.

The task force heard from Colorado lodging taxpayers including Expedia and short term rental companies regarding their experiences remitting lodging taxes in Colorado. Concerns brought up by these accommodation market intermediaries included:

- the difference in tax requirements between hotels and vacation rentals makes both difficult to remit;
- the lack of clear definitions between hotels and vacation rentals;
- mixed liability issue on who owes the tax — the individual owner of a short-term vacation rental or the accommodation intermediary, i.e. Expedia; and
- varying lodging taxes across local taxing jurisdictions.

Representatives expressed their support for a centralized lodging tax system similar to the SUTS system created by DOR. CML noted that since the state has no role in lodging taxes any centralized system must be voluntary in order to gain CML's support.

The task force directed CML to engage other stakeholders in conversation about lodging tax simplification. CML presented on its current efforts to address concerns by market intermediaries and their efforts through the 2024 interim, which include creating:

- a consolidating listing of lodging tax rates;
- a more standardized process for filing local municipal lodging taxes; and
- a centralized collection system.

CML convened a group of local experts to create useful standard definitions and create a lodging tax ordinance. This project is ongoing and follows a similar process as that for SJR 23-004. Since July 2024, CML has been meeting one-on-one with market intermediaries, property management companies, and software developers to seek feedback on the standard definitions and ordinance project, which is expected to be completed in later in 2025.

## **Wayfair v. Lakewood**

In 2022, Wayfair filed a lawsuit against the city of Lakewood arguing that the taxes Lakewood imposed on Wayfair between 2018 and 2021 were unconstitutional due to the home rule municipality's complex sales tax structure. DOR implemented SUTS, which provides a simplified system for users to file taxes, after the lawsuit was originally filed.

Lakewood attorney Patrick Freeman explained that the case has been settled and dismissed in the Jefferson County District Court. As part of the settlement, Wayfair agreed to pay sales taxes due since 2022 onward. Because the case was settled no legal precedent was established for tax remittance to home rule municipalities. Task force members voiced concerns over the lack of legal precedent and expressed an interest in understanding implications for local government taxing authorities.

## SUTS User Experience

**DOR research on user experience.** In response to the user interface requirements established in HB 23-1017, DOR conducted research on user experiences of SUTS using surveys, interviews, and analytics to identify user concerns. DOR identified the following most common trends in user feedback of the system:

- sales and use tax structure in Colorado is too complex in general, even with a system meant to streamline remittance processes;
- SUTS does not include additional taxes, i.e. lodging tax, retail delivery fee, taxes on marijuana;
- the user interface is not intuitive and instructions are unclear;
- onboarding onto the system is cumbersome and not streamlined under the legacy version;
- support is difficult to get with 10-14-day wait times for email responses and 40+ minute waits for over-the-phone support; and
- the legacy version only allows businesses to file taxes by uploading an excel worksheet—a simpler filing method is desired for some businesses.

DOR is working to address the user complaints that it can under existing resources, as discussed in the Enhancements to SUTS section below.

**Business SUTS user experience.** The task force heard presentations from Rachel Quintana on behalf of the Chamber of Commerce and Andy Archer from Automated Business Technologies about how the user experience may be improved. Testimony from the two business representatives emphasized the following areas for improvement:

- the taxability and exemption matrix is getting better but needs more enhancements, specifically around including municipal tax exemptions;
- policy and process issues persist, i.e. situations where payment was made to a city through SUTS, but the city could not match the payment to their accounts;
- there are challenges with how SUTS intersects with other tax software used by businesses;
- tax filing processes are overall clunky using SUTS, limiting the amount of time saved by using the system;
- there are issues with filing for multiple business locations in one city, i.e. cities require a separate schedule to be filed for each location, which SUTS does not account for;
- clarifications are needed for zero returns versus non-filing returns;
- deductions and exemptions populate poorly in the excel worksheet template for filing;
- difficulties exist in using SUTS for both home rule tax filings and state tax filings because of the different tax bases; and
- there is no functionality for use tax filings.

## Enhancements to SUTS

As mentioned in the legislative updates section, HB 23-1017 imposed new requirements on DOR regarding improvements to SUTS. DOR correspondingly presented on system enhancements in progress, all of which are scheduled to be implemented before January 2025.

**Bulk Address Lookup.** Previously, if a business wanted to determine the tax rate at a certain location, the GIS system within SUTS only allowed for rates to be looked up by a single address at a time. DOR has since rolled out improved lookup functionality, allowing users to upload a list of addresses or coordinates and receive a list of all local tax rates that apply to each address. In one week of July 2024, the upgraded tool was utilized 67 times for 2.4 million addresses.

**New business registration.** In response to feedback regarding the difficulty of onboarding a new business onto SUTS, the system is being upgraded to include a more streamlined process to join the system. After answering standard questions in SUTS for business registration in Colorado, the system creates a new sales tax license, new Colorado account number, and registers the business on SUTS. By registering as a new business through SUTS, the business does not have to file other licensing paperwork with DOR.

**Tax filing enhancements.** In the legacy version of SUTS, a business could only submit a tax filing by uploading an excel worksheet. The upgraded system additionally allows a business to file sales tax without using Microsoft Excel. Rather, the business can manually input gross sales for each local taxing jurisdiction directly into the system. The enhancement is intended for smaller businesses and/or those not familiar with excel; the option to file taxes with an excel worksheet still exists as well. With the enhancement, the system also flags for businesses any prior periods that the business has not filed yet.

**Enhancements for city reporting.** DOR is working on several other updates to the system in relation to filing tax returns to cities, including but not limited to correcting erroneous local account numbers, addressing issues with zero returns, and other fine tunings. A live demo for cities was held in August 2024.

**Application programming interface (API).** DOR is working with large businesses to understand their needs in regards to API enhancements. The API is helpful for businesses to automatically make sure they are collecting the right tax and improves the system's functionality to be used in conjunction with other tax software that businesses may be using to remit their sales and use tax.

**Marketing.** DOR is partnering with the marketing firm Philosophy Communication to campaign SUTS to businesses. The marketing plan includes an advertising campaign, digital advertising, testimonial, email announcements, and public relations with news channels. The campaign is roughly targeting a 10 percent increase in its user base in its initial push. In addition to its upcoming marketing campaign, DOR is creating new training sessions and online videos to support businesses in their use of SUTS.

More information about SUTS utilization can be found on the SUTS reporting dashboard:

<https://colorado.munirevs.com/show-page/?page=22>.

**Committee recommendations.** As a result of its discussions, the committee recommends Bill B, which directs DOR to allow sales tax licenses and use tax exemption certificates to be searchable by name and federal identification number.

In addition, Chair Kipp, on behalf of the task force, sent a letter to DOR requesting the formation of a working group to focus on system improvements aimed at increasing usage. The final letter can be found here:

[https://leg.colorado.gov/sites/default/files/images/committees/department\\_of\\_revenue\\_letter.pdf](https://leg.colorado.gov/sites/default/files/images/committees/department_of_revenue_letter.pdf)

## **Task Force Future**

As the task force is scheduled to sunset on July 1, 2026, the task force discussed its potential future, including:

- allowing the task force to expire;
- extending the task force beyond the 2025 interim;
- implementing the task force as a subcommittee to the existing Legislative Oversight Committee Concerning Tax Policy; and
- tasking DOR's Executive Council with maintaining future discussions on sales and use tax simplification.

The task force will finalize the determination of its future during its 2025 interim meetings.

## **Summary of Public Comment**

The task force heard from the following individuals at the task force's 2024 meetings:

- King Woolf, representing Resource Recovery Group;
- Kelly Smith, representing Evolve Vacation Rental Network, Inc.; and
- Pam Feely, representing Simplify Sales Tax Colorado.

The task force also received written testimony from the following individual and organization as part of its work:

- Laura Williams, representing Martin Marietta.

## Summary of Recommendations

As a result of the committee's activities, the committee recommended two bills to the Legislative Council for consideration in the 2025 session. At its meeting on October 15, 2024 the Legislative Council approved the two recommended bills for introduction. The approved bills are described below.

### **Bill A — Local Government Tax Audit Confidentiality Standards**

The bill establishes confidentiality standards for the protection of taxpayer information used or obtained for a sales and use tax investigation performed by a third-party auditor on behalf of a local taxing jurisdiction. The bill prohibits auditors from divulging any taxpayer information related to a sales and use tax audit except under certain circumstances. Finally, the bill clarifies the DOR's authority to share taxpayer information with local taxing jurisdictions.

### **Bill B — Online Search of Sales and Use Tax**

The bill directs the DOR to allow a sales and use tax license and a sales and use tax exemption certificate to be searchable by the name and federal identification number of the sales and use tax licensee or the sales and use tax exemption certificate holder.

## Resource Materials

Meeting summaries are prepared for each meeting of the committee and contain all handouts provided to the committee. The summaries of meetings and attachments are available at the Division of Archives, 1313 Sherman Street, Denver (303-866-2055). The listing below contains the dates of committee meetings and the topics discussed at those meetings. Meeting summaries are also available on our website at:

<https://leg.colorado.gov/committees/sales-and-use-tax-simplification-task-force/2024-regular-session>

## Meetings and Topics Discussed

### June 24, 2024

- Presentation from the Office of Legislative Legal Services
- Audit Panel discussion
- Lodging Tax Panel discussion
- Public testimony

### July 24, 2024

- Lakewood v. Wayfair Case update
- SUTS System User Interface updates
- Shopify Fee discussion
- SUTS System user experience panel
- SJR23-004 update
- Colorado Municipal League Lodging Tax Stakeholder discussion update
- Public testimony

### July 24, 2024 (cont.)

- Future of the Task Force discussion

### August 14, 2024

- Lodging Tax discussion
- License search functionality presentation
- Future of Task Force discussion
- Bill drafts requests

### September 25, 2024

- Public testimony
- Bill drafts approval
- Discussion of letter to DOR